

Message Text

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TO AMEMBASSY KINSHASA PRIORITY

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C O N F I D E N T I A L STATE 063787

EXDIS

E.O. 11652: GDS

EFIN, CG

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SUBJECT: ZAIRE'S FINANCIAL SITUATION

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REFS: KINSHASA 2224 AND PREVIOUS (NOTAL); PARIS 6869

(NOTAL)

1. SUMMARY. DINI OF IMF MET USG REPS MARCH 17. HE DESCRIBED SHORT-TERM DEBT BUILD-UP AS CRUX OF ZAIRE'S FINANCIAL PROBLEM AND THEREFORE ENVISAGED MEETING WITH CREDITORS TO OBTAIN RELIEF ON SHORT-TERM DEBT PAYMENTS AS LOGICAL COMPLEMENT TO STABILIZATION MEASURES TO BE TAKEN BY GOZ. HE FELT COMMERCIAL BANK COULD MORE APPROPRIATELY PLAY INTERMEDIARY ROLE THAN IMF. (FNCB HAS INDICATED WILLINGNESS IN PRINCIPLE TO DO SO IF AND WHEN

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GOZ EXTENDS INVITATION.) EXPECT DINI WILL HAVE SOME CALMING

EFFECT ON BANKERS WITH WHOM HE TALKS. WHILE HE PAINTS BLEAK PICTURE OF ZAIRIAN FINANCES, HIS BASIC MESSAGE IS THAT PROBLEM CAN BE LICKED IF MOBUTU BUCKLES DOWN TO IT. UNTIL ZAIRE DOES CLARIFY PICTURE TO CREDITORS, THERE REMAINS RISK OF COURSE THAT ONE CREDITOR DECLARING DEFAULT ON MEDIUM- OR LONG-TERM OBLIGATION COULD HAVE DOMINO EFFECT ON OTHERS, PRODUCING CHAOTIC SITUATION. FNCB FORESEES HIGH RISK OF THIS IF ZAIRE FAILS MAKE PROMISED MARCH 31 DEFERRED PAYMENT OF 6 MILLION DOLLARS DUE ON BOP LOAN.

2. IN MEETING WITH TREASURY, EXIMBANK AND DEPARTMENT REPS MARCH 17, LAMBERTO DINI OF IMF, SECONDED BY RUSSO, WENT OVER MUCH OF THE GROUND COVERED BY DINI IN DISCUSSION WITH AMBASSADOR BUT OFFERED REFINED VIEW OF HOW ZAIRE'S FINANCIAL PROBLEM MIGHT BE MET AND IDENTIFIED BUILD-UP OF SHORT-TERM DEBT AS ITS PROXIMATE CAUSE.

3. DINI JUDGED THAT WITH RESTRICTION OF IMPORTS TO 500 MILLION DOLLARS (WHICH HE CONSIDERED FEASIBLE), CUTBACK ON GOVERNMENT SPENDING ABROAD (E.G., FOR EXTRAVAGANT PRESIDENTIAL TRAVEL), AND CANCELLATION OR DEFERRAL OF INESSENTIAL MAJOR PROJECTS, ZAIRE COULD PROBABLY MEET OR COME CLOSE TO MEETING CURRENT FONEX EXPENDITURES AND SERVICE MEDIUM- AND LONG-TERM DEBT OUT OF REDUCED EARNINGS OF 1 BILLION DOLLARS EXPECTED IN 1975. (THIS FIGURE ASSUMES AVERAGE COOPER PRICE OF 60 CENTS AND CUT OF 10 PERCENT IN VOLUME OF EXPORTS FROM LEVEL ORIGINALLY PLANNED.) AT 20 PERCENT OF PROJECTED EXPORT EARNINGS, MEDIUM- AND SHORT-TERM DEBT SERVICE ON CONTRACT BASIS IS STILL NOT UNBEARABLE BURDEN AND COULD BE SOMEWHAT REDUCED BY CANCELLATION OR DEFERRAL OF CONTRACTS NOT YET IMPLEMENTED.

4. PROBLEM IS SHORT-TERM DEBT, WHICH DOUBLED FROM 300 MILLION DOLLARS TO 600 MILLION DOLLARS IN 1974 AND CANNOT BE SERVICED OR REDUCED IN 1975 OUT OF ZAIRES EARNINGS. TO DEAL WITH THIS DINI CLAIMS ZAIRE FORESEES SOME COMBINATION OF BALANCE OF PAYMENTS LOANS, IMF DRAWINGS, AND SHORT-TERM DEBT ROLL-OVER. ADDITIONAL RESOURCES COULD TOTAL NEARLY \$400 MIL. IF LOAN MOBUTU CLAIMS TO HAVE ARRANGED THROUGH GOVERNMENT OF

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FRANCE MATERIALIZES AND IF IMF BOARD APPROVES 1974 OIL FACILITY FOR ZAIRE WHICH DINI SAYS STAFF WILL RECOMMEND. (BREAKDOWN WOULD BE 50 MILLION DOLLARS FROM ABU DHABI, 250 MILLION DOLLARS ARRANGED BY GOF, AND 73 FROM IMF, COMPRISING 28 MILLION GOLD TRANCHE AND 45 MILLION DOLLARS OIL FACILITY). STRETCHED-OUT PAYMENT OR ROLL-OVER OF 200 MILLION DOLLARS PLUS IN SHORT TERM CREDIT WOULD STILL BE REQUIRED--OR NEARLY 500 MILLION DOLLARS IF GOF

ARRANGEMENT DOES NOT MATERIALIZE. DINI THEREFORE SEES PROJECTED MEETING WITH CREDITORS (BANKS AND PERHAPS SOME SUPPLIERS) AS LOGICAL STEP ONCE GOZ HAS STABILIZATION PROGRAM AND PAYMENTS PLAN TO PRESENT. HE THOUGHT IMF WOULD BE INVITED AS OBSERVER BUT SAW NO PROBLEM WITH HAVING A COMMERCIAL BANK, SUCH AS FNCB, ASSUME RESPONSIBILITY FOR ORGANIZING MEETING; HE FELT, IN FACT, THAT THIS ROLE WOULD NOT BE APPROPRIATE FOR IMF GIVEN EXPECTED FOCUS OF SUCH A MEETING ON SHORT-TERM DEBT. WEHRMAN OF FNCB HAS INFORMED US THAT HIS BANK IS FAVORABLY DISPOSED TO PLAYING THIS ROLE AND TO SENDING FRIEDMAN ON A RECONNOITERING VISIT IF AND WHEN THE GOZ SIGNALS THAT IT WOULD LIKE HIM TO COME. FNCB HAS BEEN ENCOURAGED IN THIS BY BOTH IMF AND CHASE. (WE UNDERSTAND FROM TEMPELSMAN THAT IDEA OF FNCB INTERMEDIARY ROLE WAS CONCEIVED IN SMFT DISCUSSIONS WITH CHASE ABOUT HOW TO HOLD SMTF EURODOLLAR LOAN CONSORTIUM TOGETHER AND THAT IDEA WAS FED TO SAMBWA BY DEVLIN.)

5. CREDITOR AGREEMENT TO NECESSARY STRETCH-OUT OR ROLL-OVER OF SHORT-TERM DEBT WOULD SEEM OBTAINABLE IF ZAIRE PRESENTS CONVINCING STABILIZATION PROGRAM. INCENTIVE CERTAINLY EXISTS FOR BOTH SIDES: FOR CREDITORS, ANY REASONABLE PAYMENT PROGRAM SHOULD BE PREFERABLE TO CURRENT SITUATION IN WHICH, ACCORDING TO DINI, SHORT-TERM DEBT NOT BEING SERVICED AT ALL; AND FOR GOZ, AGREEMENT ON PAYMENTS PROGRAM IS PREREQUISITE FOR CREATION OF CREDITOR CONFIDENCE NECESSARY TO MAINTAIN DISBURSEMENT OF EXISTING MEDIUM- AND LONG-TERM LOANS FOR ESSENTIAL PROJECTS AND PERMIT THE NEGOTIATION OF OTHERS (SUCH AS CHASE-SYNDICATED SMTF LOAN) TO GO FORWARD. AS DINI READILY ACKNOWLEDGED, AND AS AMBASSADOR HAS POINTED OUT, HOWEVER, THE QUESTION MARK IS GOZ'S ABILITY TO IMPLEMENT NECESSARY

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STABILIZATION PROGRAM. IN DINI'S VIEW STABILIZATION PLAN MUST INCLUDE NOT ONLY ADOPTION OF STRICT, AUSTERE FOREIGN EXCHANGE BUDGET BUT CONCOMITANTLY ELIMINATION OF HUGE BUDGET DEFICITS CENTRAL BANK HAS BEEN FINANCING; THIS IS NECESSARY, IN HIS VIEW, TO PREVENT THE ALREADY HIGH RATE OF DOMESTIC INFLATION FROM ESCALATING TO POLITICALLY DESTABILIZING LEVELS. AS DINI POINTS OUT, SUCCESS IN CONTROLLING BOTH FONEX AND BUDGETARY EXPENDITURES WILL DEPEND HEAVILY UPON MOBUTU HIMSELF, GIVEN HIGH PROPORTION OF BOTH FOR WHICH PRESIDENCY EXPENDITURES ACCOUNT.

6. COMMENT: MOBUTU'S REPORTED ACCEPTANCE OF PROGRAM WHICH SAMBWA DEVELOPED WITH DINI IS ENCOURAGING DEVELOPMENT. IT REMAINS TO BE SEEN HOW IT WILL BE CARRIED OUT. WHILE ABSENCE OF FIRM IMF HAND ON STABILIZATION PROGRAM IS

REGRETABLE, IF MOBUTU IS SERIOUS ABOUT THE PROGRAM A
DELAY OF A MONTH IN MEETING WITH CREDITORS SHOULD PERMIT
HIM TO COME TO MEETING WITH SOMETHING MORE TO SHOW.
ANALYSIS BEING PROVIDED BY DINI, WHO IS INFORMALLY BRIEFING
BANKERS WHO CALL, SHOULD HAVE SOME CALMING EFFECT IN THE
INTERIM. THERE REMAINS A RISK, OF COURSE, IN PROLONGING
SITUATION OF UNCERTAINTY IN WHICH DECISION OF ONE
CREDITOR TO DECLARE A DEFAULT COULD HAVE DOMINO EFFECT
ON OTHERS. WEHRMAN OF FNCB FORESEES THREAT OF THIS IF
ZAIRE FAILS TO MAKE 6 MILLION DOLLARS PAYMENT ON FNCB-
SYNDICATED BALANCE OF PAYMENTS LOAN DEFERRED FROM
FEBRUARY 28 TO MARCH 31 AT SAMBWA'S REQUEST. WEHRMAN
REPORTS JAPANESE BANKS IN PARTICULAR (FUJI BANK AMONG
THEM) WERE RELUCTANT TO GO ALONG WITH DEFERRAL AND SEEM
LIKELY TO PRESS FOR DECLARATION OF DEFAULT IF
MARCH 31 PAYMENT NOT MADE.

7. WE WOULD BE INTERESTED IN CONFIRMATION OF DINI
SUGGESTION THAT IT IS LARGELY OR EXCLUSIVELY SHORT-TERM
DEBT WHICH GOZ WOULD SEEK TO STRETCH OUT OR ROLL-OVER
IN MEETING WITH CREDITORS. IF THIS WERE THE CASE, DIRECT
USG INVOLVEMENT WOULD OF COURSE BE MINIMAL. IN CONTRAST,
WE UNDERSTAND GOB HAS INSURED MOST OF SHORT-TERM DEBT
RUN UP OF BELGIAN ORIGIN.

8. ABOVE DRAFTED BEFORE KINSHASA 2333 AND 2291 RECEIVED.
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